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Department of Finance

BEYOND BILATERAL FLOWS: INDIRECT CONNECTIONS AND EXCHANGE RATES

This paper studies how cross-border financial connections affect the response of exchange rates to trade shocks. Theoretically, we develop a multi-country model whereby a country's exchange rate depends on the financiers' ability to manage capital flows between this country and its counterparties (direct connection) and between its counterparties and their trading partners (indirect connection). Empirically, we quantify the network of financial connections using granular data on cross-border claims and liabilities of globally active banks. Consistent with our theoretical predictions, we find that indirect connection can either amplify or mitigate the impact of trade shocks on future exchange rate returns, depending on the shock's origin and size, while direct connection always dampens these effects.

November 7 2024 (THU)

1:45pm - 3:15pm (HKT)

SEK104

English

SPEAKER

Prof. Saleem BAHAJ

Associate Professor of Economics and Finance

University College London

Saleem Bahaj is an Associate Professor of Economics and Finance at University College London. He joined UCL in 2021 after spending seven years in the research department of the Bank of England and completing his PhD at the University of Cambridge in 2014.

Saleem's research lies at the intersection of macroeconomics and finance with a particular focus on international finance, corporate behaviour, and bank capital regulation. His most recent work has focused on the coordination financial policies between countries. He has studied the structure and economic consequences of liquidity lines between central banks, documenting their effect on asset prices, bank investment decisions and the currency choice of international transactions. He has also worked on how financial policies, in particular capital requirements, should be coordinated internationally. A second strand of research has focused on the directors of non-financial business and the role they play in determining financial constraints at the firm level. Saleem’s research shows how the wealth and relationships of directors’ influence firm investment decisions and, as a result, the macroeconomy.

Saleem’s work has been published in, among others, *the American Economic Review, the Review of Economic Studies, the Journal of Finance, the Journal of Monetary Economics, and the Journal of Financial Economics*.

[ALL ARE WELCOME]

For enquiries, please contact 2616-8373 or by email (hkibs@ln.edu.hk).
Due date: 8 November 2024

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